

## **HIGH SCHOOL CORE AREA**

### **Economics**

**Standard ECON-8:** The student will demonstrate an understanding of the principles of trade and economic development.

**ECON-8.4** Explain the basic concept of the foreign exchange market, including the operation of exchange rates and the effects of the dollar's gaining or losing value relative to other currencies. (E)

**Taxonomy Level:** B 2 Understand /Conceptual Knowledge.

#### **Previous knowledge**

In first grade (1-6.2) students explained methods for obtaining goods and services, including buying with money and bartering. In second grade (2-5.2) students summarized the concept of supply and demand and explained its effect on price. In fifth grade (5-4.2, 5-6.5) students summarized the stock market crash of 1929 and the Great Depression, including economic weakness, unemployment, failed banks and businesses, and migration from rural areas; while also summarizing the changes that have taken place in United States foreign policy since 1992, including the globalization of trade and the war on terrorism.

In sixth grade (6-5.1) students summarized the origins of the Renaissance and its spread throughout Europe, including interaction between Europeans and Muslims during the Crusades, political and economic changes, developments in commerce, and intellectual and artistic growth. Seventh grade (7-5.2, 7-5.3) students explained the outcome and effects of World War I, including the conditions and failures of the League of Nations and the Treaty of Versailles and the effects of major treaties on population movement, the international economy, and shifts in borders; while also explaining the worldwide depression that took place in the 1930s, including the economic crash of 1929 and political responses to the depression such as the New Deal in the United States, the rise of Nazism in Germany, and the economic retrenchment in Britain. Also in seventh grade (7-7.6) students explained the impact of increasing global economic interdependence in the late twentieth century and the early twenty-first century, including the significance of global communication, labor demands, and others.

In United States History (USHC-5.2) students summarized the factors that influenced the economic growth of the United States and its emergence as an industrial power, including the abundance of natural resources; government support and protection in the form of tariffs, labor policies, and subsidies; and the expansion of international markets associated with industrialization. Students also (USHC-7.4) explained the causes and effects of the stock market crash of 1929 and the Great Depression, including the disparity in incomes, limited government regulation, stock market speculation, and the collapse of the farm economy; wealth distribution, investment, and taxes; government policies and the Federal Reserve System; and the effects of the Depression on human beings and the environment. As well, in United States Government (USG-4.1) students summarized ways in which United States foreign policy is formulated and carried out, including current foreign policy issues and security interests; the impact of foreign

policy on individual citizens; the influence and exchange of political ideas between nations; and America's contributions to the world in politics, environmentalism, technology, science, humanitarianism, and culture.

### **Future knowledge**

While no future knowledge is required, young adults should have a general understanding of the importance of international trade and globalization to the American economy and the average American worker. While students do not need to be scholars of international finance, a basic understanding of how the value of the dollar impacts U.S. firms, consumers, and individuals in other nations, provides a framework to understand changing economic and political conditions that may directly impact their individual lives. Thus, a basic knowledge of foreign exchange and currency markets allows students to be more effective decision makers when economists, politicians, lobbyists, or companies push for a specific policy approach on international trade or economic issues, generally.

### **It is essential for students to know**

It is essential for students to know that currencies are bought and sold in a market like most goods and services are. Currencies are, therefore, subject to the forces of supply and demand in the same way that goods and services are. The student should be able to use a simple supply and demand diagram to explain how currency values are set. As well, they should have a basic understanding of why currencies might be in greater or lesser demand. Because currencies operate in a competitive market, students should understand that their value fluctuates depending upon a variety of economic reasons. It is important for students to understand that weaker currencies are not necessarily detrimental to a nation's well being as a weaker currency may increase a nation's overall export and domestic economic activity. It is also essential for a student to understand that a weaker currency can increase domestic employment, while making it more expensive to purchase imported goods that may be necessary for production.

Students should be able to identify the currency units of G8 countries to include the Yen, Canadian Dollar, Pound, Euro, and the symbols connected with these currencies. Students should understand that these currencies are specific to the nation's economy that it represents and is not based on the value of a specific commodity, like gold, silver, etc. As well, students should be able to perform simple conversions of USD to other currencies.

### **It is not essential for students to know**

It is not essential for students to know specific details concerning the operation of currency markets. They do not need to be able to define terms such as Purchasing Power Parity or other specific foreign exchange terminology. Students also do not need to know examples of specific policy approaches that attempt to influence or manipulate exchange rates in a given direction.

### **Assessment guidelines**

Appropriate assessment requires students to *explain* the basic concept of the foreign exchange market; therefore, the primary focus of assessment should be for students to *identify* reasons why the supply and demand for a specific currency may change and to *interpret* a graphical analysis of the equilibrium price and quantity of a currency market. Additional assessment may also require students to *classify* the positive and negative outcomes that can result from a weak or strong

currency.